

***The Economics of Money, Banking, and Financial Markets, 9e (Mishkin)***  
**Chapter 1 Why Study Money, Banking, and Financial Markets?**

**1.1 Why Study Financial Markets?**

- 1) Financial markets promote economic efficiency by
- A) channeling funds from investors to savers.
  - B) creating inflation.
  - C) channeling funds from savers to investors.
  - D) reducing investment.

Answer: C

Ques Status: Previous Edition

- 2) Financial markets promote greater economic efficiency by channeling funds from \_\_\_\_\_ to \_\_\_\_\_.

- A) investors; savers
- B) borrowers; savers
- C) savers; borrowers
- D) savers; lenders

Answer: C

Ques Status: Previous Edition

- 3) Well-functioning financial markets promote
- A) inflation.
  - B) deflation.
  - C) unemployment.
  - D) growth.

Answer: D

Ques Status: Previous Edition

- 4) A key factor in producing high economic growth is
- A) eliminating foreign trade.
  - B) well-functioning financial markets.
  - C) high interest rates.
  - D) stock market volatility.

Answer: B

Ques Status: New

- 5) Markets in which funds are transferred from those who have excess funds available to those who have a shortage of available funds are called
- A) commodity markets.
  - B) fund-available markets.
  - C) derivative exchange markets.
  - D) financial markets.

Answer: D

Ques Status: Previous Edition

6) \_\_\_\_\_ markets transfer funds from people who have an excess of available funds to people who have a shortage.

- A) Commodity
- B) Fund-available
- C) Financial
- D) Derivative exchange

Answer: C

Ques Status: Previous Edition

7) Poorly performing financial markets can be the cause of

- A) wealth.
- B) poverty.
- C) financial stability.
- D) financial expansion.

Answer: B

Ques Status: Previous Edition

8) The bond markets are important because they are

- A) easily the most widely followed financial markets in the United States.
- B) the markets where foreign exchange rates are determined.
- C) the markets where interest rates are determined.
- D) the markets where all borrowers get their funds.

Answer: C

Ques Status: Previous Edition

9) The price paid for the rental of borrowed funds (usually expressed as a percentage of the rental of \$100 per year) is commonly referred to as the

- A) inflation rate.
- B) exchange rate.
- C) interest rate.
- D) aggregate price level.

Answer: C

Ques Status: Previous Edition

10) Compared to interest rates on long-term U.S. government bonds, interest rates on three-month Treasury bills fluctuate \_\_\_\_\_ and are \_\_\_\_\_ on average.

- A) more; lower
- B) less; lower
- C) more; higher
- D) less; higher

Answer: A

Ques Status: Previous Edition

11) The interest rate on Baa (medium quality) corporate bonds is \_\_\_\_\_, on average, than other interest rates, and the spread between it and other rates became \_\_\_\_\_ in the 1970s.

- A) lower; smaller
- B) lower; larger
- C) higher; smaller
- D) higher; larger

Answer: D

Ques Status: Previous Edition

12) Everything else held constant, a decline in interest rates will cause spending on housing to

- A) fall.
- B) remain unchanged.
- C) either rise, fall, or remain the same.
- D) rise.

Answer: D

Ques Status: Previous Edition

13) High interest rates might \_\_\_\_\_ purchasing a house or car but at the same time high interest rates might \_\_\_\_\_ saving.

- A) discourage; encourage
- B) discourage; discourage
- C) encourage; encourage
- D) encourage; discourage

Answer: A

Ques Status: New

14) An increase in interest rates might \_\_\_\_\_ saving because more can be earned in interest income.

- A) encourage
- B) discourage
- C) disallow
- D) invalidate

Answer: A

Ques Status: Previous Edition

15) Everything else held constant, an increase in interest rates on student loans

- A) increases the cost of a college education.
- B) reduces the cost of a college education.
- C) has no effect on educational costs.
- D) increases costs for students with no loans.

Answer: A

Ques Status: Previous Edition

16) High interest rates might cause a corporation to \_\_\_\_\_ building a new plant that would provide more jobs.

- A) complete
- B) consider
- C) postpone
- D) contemplate

Answer: C

Ques Status: Previous Edition

17) The stock market is important because it is

- A) where interest rates are determined.
- B) the most widely followed financial market in the United States.
- C) where foreign exchange rates are determined.
- D) the market where most borrowers get their funds.

Answer: B

Ques Status: Previous Edition

18) Stock prices are

- A) relatively stable trending upward at a steady pace.
- B) relatively stable trending downward at a moderate rate.
- C) extremely volatile.
- D) unstable trending downward at a moderate rate.

Answer: C

Ques Status: Revised

19) A rising stock market index due to higher share prices

- A) increases people's wealth, but is unlikely to increase their willingness to spend.
- B) increases people's wealth and as a result may increase their willingness to spend.
- C) decreases the amount of funds that business firms can raise by selling newly-issued stock.
- D) decreases people's wealth, but is unlikely to increase their willingness to spend.

Answer: B

Ques Status: Previous Edition

20) When stock prices fall

- A) an individual's wealth is not affected nor is their willingness to spend.
- B) a business firm will be more likely to sell stock to finance investment spending.
- C) an individual's wealth may decrease but their willingness to spend is not affected.
- D) an individual's wealth may decrease and their willingness to spend may decrease.

Answer: D

Ques Status: Previous Edition

21) Changes in stock prices

- A) do not affect people's wealth and their willingness to spend.
- B) affect firms' decisions to sell stock to finance investment spending.
- C) occur in regular patterns.
- D) are unimportant to decision makers.

Answer: B

Ques Status: Previous Edition

22) An increase in stock prices \_\_\_\_\_ the size of people's wealth and may \_\_\_\_\_ their willingness to spend, everything else held constant.

- A) increases; increase
- B) increases; decrease
- C) decreases; increase
- D) decreases; decrease

Answer: A

Ques Status: Previous Edition

23) Low stock market prices might \_\_\_\_\_ consumers willingness to spend and might \_\_\_\_\_ businesses willingness to undertake investment projects.

- A) increase; increase
- B) increase; decrease
- C) decrease; decrease
- D) decrease; increase

Answer: C

Ques Status: New

24) Fear of a major recession causes stock prices to fall, everything else held constant, which in turn causes consumer spending to

- A) increase.
- B) remain unchanged.
- C) decrease.
- D) cannot be determined.

Answer: C

Ques Status: Previous Edition

25) A share of common stock is a claim on a corporation's

- A) debt.
- B) liabilities.
- C) expenses.
- D) earnings and assets.

Answer: D

Ques Status: Revised

26) On \_\_\_\_\_, October 19, 1987, the market experienced its worst one-day drop in its entire history with the DJIA falling by more than 500 points.

- A) "Terrible Tuesday"
- B) "Woeful Wednesday"
- C) "Freaky Friday"
- D) "Black Monday"

Answer: D

Ques Status: Previous Edition

27) The decline in stock prices from 2000 through 2002

- A) increased individuals' willingness to spend.
- B) had no effect on individual spending.
- C) reduced individuals' willingness to spend.
- D) increased individual wealth.

Answer: C

Ques Status: Previous Edition

28) The Dow reached a peak of over 11,000 before the collapse of the \_\_\_\_\_ bubble in 2000.

- A) housing
- B) manufacturing
- C) high-tech
- D) banking

Answer: C

Ques Status: Previous Edition

29) What is a stock? How do stocks affect the economy?

Answer: A stock represents a share of ownership of a corporation, or a claim on a firm's earnings/assets. Stocks are part of wealth, and changes in their value affect people's willingness to spend. Changes in stock prices affect a firm's ability to raise funds, and thus their investment.

Ques Status: Previous Edition

30) Why is it important to understand the bond market?

Answer: The bond market supports economic activity by enabling the government and corporations to borrow to undertake their projects and it is the market where interest rates are determined.

Ques Status: New

## 1.2 Why Study Financial Institutions and Banking?

1) Channeling funds from individuals with surplus funds to those desiring funds when the saver does not purchase the borrower's security is known as

- A) barter.
- B) redistribution.
- C) financial intermediation.
- D) taxation.

Answer: C

Ques Status: Previous Edition

2) A financial crisis is

- A) not possible in the modern financial environment.
- B) a major disruption in the financial markets.
- C) a feature of developing economies only.
- D) typically followed by an economic boom.

Answer: B

Ques Status: New

3) Banks are important to the study of money and the economy because they

- A) channel funds from investors to savers.
- B) have been a source of rapid financial innovation.
- C) are the only important financial institution in the U.S. economy.
- D) create inflation.

Answer: B

Ques Status: Previous Edition

4) Financial intermediaries

- A) provide a channel for linking those who want to save with those who want to invest.
- B) produce nothing of value and are therefore a drain on society's resources.
- C) can hurt the performance of the economy.
- D) hold very little of the average American's wealth.

Answer: A

Ques Status: Revised

5) Banks, savings and loan associations, mutual savings banks, and credit unions

- A) are no longer important players in financial intermediation.
- B) since deregulation now provide services only to small depositors.
- C) have been adept at innovating in response to changes in the regulatory environment.
- D) produce nothing of value and are therefore a drain on society's resources.

Answer: C

Ques Status: Previous Edition

6) Financial institutions search for \_\_\_\_\_ has resulted in many financial innovations.

- A) higher profits
- B) regulations
- C) respect
- D) higher risk

Answer: A

Ques Status: New

7) Banks and other financial institutions engage in financial intermediation, which

- A) can hurt the performance of the economy.
- B) can benefit economic performance.
- C) has no effect on economic performance.
- D) involves borrowing from investors and lending to savers.

Answer: B

Ques Status: Previous Edition

8) Financial institutions that accept deposits and make loans are called \_\_\_\_\_.

- A) exchanges
- B) banks
- C) over-the-counter markets
- D) finance companies

Answer: B

Ques Status: Previous Edition

9) The financial intermediaries that the average person interacts with most frequently are \_\_\_\_\_.

- A) exchanges
- B) over-the-counter markets
- C) finance companies
- D) banks

Answer: D

Ques Status: Previous Edition

10) Which of the following is not a financial institution?

- A) a life insurance company
- B) a pension fund
- C) a credit union
- D) a business college

Answer: D

Ques Status: Previous Edition

11) The delivery of financial services electronically is called \_\_\_\_\_.

- A) e-business
- B) e-commerce
- C) e-finance
- D) e-possible

Answer: C

Ques Status: Previous Edition



12) What crucial role do financial intermediaries perform in an economy?

Answer: Financial intermediaries borrow funds from people who have saved and make loans to other individuals and businesses and thus improve the efficiency of the economy.

Ques Status: New

### 1.3 Why Study Money and Monetary Policy?

1) Money is defined as

A) bills of exchange.

B) anything that is generally accepted in payment for goods and services or in the repayment of debt.

C) a risk-free repository of spending power.

D) the unrecognized liability of governments.

Answer: B

Ques Status: Previous Edition

2) The upward and downward movement of aggregate output produced in the economy is referred to as the \_\_\_\_\_.

A) roller coaster

B) see saw

C) business cycle

D) shock wave

Answer: C

Ques Status: Previous Edition

3) Sustained downward movements in the business cycle are referred to as

A) inflation.

B) recessions.

C) economic recoveries.

D) expansions.

Answer: B

Ques Status: Previous Edition

4) During a recession, output declines resulting in

A) lower unemployment in the economy.

B) higher unemployment in the economy.

C) no impact on the unemployment in the economy.

D) higher wages for the workers.

Answer: B

Ques Status: New

5) Prior to all recessions since 1900, there has been a drop in

A) inflation.

B) the money stock.

C) the growth rate of the money stock.

D) interest rates.

Answer: C

Ques Status: Previous Edition

- 6) Evidence from business cycle fluctuations in the United States indicates that
- A) a negative relationship between money growth and general economic activity exists.
  - B) recessions have been preceded by declines in share prices on the stock exchange.
  - C) recessions have been preceded by dollar depreciation.
  - D) recessions have been preceded by a decline in the growth rate of money.

Answer: D

Ques Status: Previous Edition

- 7) \_\_\_\_\_ theory relates changes in the quantity of money to changes in aggregate economic activity and the price level.

- A) Monetary
- B) Fiscal
- C) Financial
- D) Systemic

Answer: A

Ques Status: Previous Edition

- 8) A sharp increase in the growth of the money supply is likely followed by

- A) a recession.
- B) a depression.
- C) an increase in the inflation rate.
- D) no change in the economy.

Answer: C

Ques Status: Previous Edition

- 9) It is true that inflation is a

- A) continuous increase in the money supply.
- B) continuous fall in prices.
- C) decline in interest rates.
- D) continually rising price level.

Answer: D

Ques Status: Previous Edition

- 10) Which of the following is a true statement?

- A) Money or the money supply is defined as Federal Reserve notes.
- B) The average price of goods and services in an economy is called the aggregate price level.
- C) The inflation rate is measured as the rate of change in the federal government budget deficit.
- D) The aggregate price level is measured as the rate of change in the inflation rate.

Answer: B

Ques Status: Previous Edition

11) If ten years ago the prices of the items bought last month by the average consumer would have been much higher, then one can likely conclude that

- A) the aggregate price level has declined during this ten-year period.
- B) the average inflation rate for this ten-year period has been positive.
- C) the average rate of money growth for this ten-year period has been positive.
- D) the aggregate price level has risen during this ten-year period.

Answer: A

Ques Status: Previous Edition

12) From 1950-2008 the price level in the United States increased more than \_\_\_\_\_.

- A) twofold
- B) threefold
- C) sixfold
- D) ninefold

Answer: C

Ques Status: Revised

13) Complete Milton Friedman's famous statement, "Inflation is always and everywhere a \_\_\_\_\_ phenomenon."

- A) recessionary
- B) discretionary
- C) repressonary
- D) monetary

Answer: D

Ques Status: Previous Edition

14) There is a \_\_\_\_\_ association between inflation and the growth rate of money \_\_\_\_\_.

- A) positive; demand
- B) positive; supply
- C) negative; demand
- D) negative; supply

Answer: B

Ques Status: New

15) Evidence from the United States and other foreign countries indicates that

- A) there is a strong positive association between inflation and growth rate of money over long periods of time.
- B) there is little support for the assertion that "inflation is always and everywhere a monetary phenomenon."
- C) countries with low monetary growth rates tend to experience higher rates of inflation, all else being constant.
- D) money growth is clearly unrelated to inflation.

Answer: A

Ques Status: Previous Edition

16) Countries that experience very high rates of inflation may also have

- A) balanced budgets.
- B) rapidly growing money supplies.
- C) falling money supplies.
- D) constant money supplies.

Answer: B

Ques Status: Revised

17) Between 1950 and 1980 in the U.S., interest rates trended upward. During this same time period,

- A) the rate of money growth declined.
- B) the rate of money growth increased.
- C) the government budget deficit (expressed as a percentage of GNP) trended downward.
- D) the aggregate price level declined quite dramatically.

Answer: B

Ques Status: Previous Edition

18) The management of money and interest rates is called \_\_\_\_\_ policy and is conducted by a nation's \_\_\_\_\_ bank.

- A) monetary; superior
- B) fiscal; superior
- C) fiscal; central
- D) monetary; central

Answer: D

Ques Status: Previous Edition

19) The organization responsible for the conduct of monetary policy in the United States is the

- A) Comptroller of the Currency.
- B) U.S. Treasury.
- C) Federal Reserve System.
- D) Bureau of Monetary Affairs.

Answer: C

Ques Status: Previous Edition

20) \_\_\_\_\_ policy involves decisions about government spending and taxation.

- A) Monetary
- B) Fiscal
- C) Financial
- D) Systemic

Answer: B

Ques Status: Previous Edition

21) When tax revenues are greater than government expenditures, the government has a budget \_\_\_\_\_.

- A) crisis
- B) deficit
- C) surplus
- D) revision

Answer: C

Ques Status: Previous Edition

22) A budget \_\_\_\_\_ occurs when government expenditures exceed tax revenues for a particular time period.

- A) deficit
- B) surplus
- C) surge
- D) surfeit

Answer: A

Ques Status: New

23) Budget deficits can be a concern because they might

- A) ultimately lead to higher inflation.
- B) lead to lower interest rates.
- C) lead to a slower rate of money growth.
- D) lead to higher bond prices.

Answer: A

Ques Status: Previous Edition

24) Budget deficits are important because deficits

- A) cause bank failures.
- B) always cause interest rates to fall.
- C) can result in higher rates of monetary growth.
- D) always cause prices to fall.

Answer: C

Ques Status: Previous Edition

25) What happens to economic growth and unemployment during a business cycle recession?

What is the relationship between the money growth rate and a business cycle recession?

Answer: During a recession, output declines and unemployment increases. Prior to every recession in the U.S. the money growth rate has declined, however, not every decline is followed by a recession.

Ques Status: Previous Edition

#### 1.4 Why Study International Finance?

- 1) American companies can borrow funds  
A) only in U.S. financial markets.  
B) only in foreign financial markets.  
C) in both U.S. and foreign financial markets.  
D) only from the U.S. government.

Answer: C

Ques Status: New

- 2) The price of one country's currency in terms of another country's currency is called the  
A) exchange rate.  
B) interest rate.  
C) Dow Jones industrial average.  
D) prime rate.

Answer: A

Ques Status: Previous Edition

- 3) The market where one currency is converted into another currency is called the \_\_\_\_\_ market.  
A) stock  
B) bond  
C) derivatives  
D) foreign exchange

Answer: D

Ques Status: Previous Edition

- 4) Everything else constant, a stronger dollar will mean that  
A) vacationing in England becomes more expensive.  
B) vacationing in England becomes less expensive.  
C) French cheese becomes more expensive.  
D) Japanese cars become more expensive.

Answer: B

Ques Status: Previous Edition

- 5) Which of the following is most likely to result from a stronger dollar?  
A) U.S. goods exported abroad will cost less in foreign countries, and so foreigners will buy more of them.  
B) U.S. goods exported abroad will cost more in foreign countries and so foreigners will buy more of them.  
C) U.S. goods exported abroad will cost more in foreign countries, and so foreigners will buy fewer of them.  
D) Americans will purchase fewer foreign goods.

Answer: C

Ques Status: Previous Edition

- 6) Everything else held constant, a weaker dollar will likely hurt
- A) textile exporters in South Carolina.
  - B) wheat farmers in Montana that sell domestically.
  - C) automobile manufacturers in Michigan that use domestically produced inputs.
  - D) furniture importers in California.

Answer: D

Ques Status: Previous Edition

- 7) Everything else held constant, a stronger dollar benefits \_\_\_\_\_ and hurts \_\_\_\_\_.
- A) American businesses; American consumers
  - B) American businesses; foreign businesses
  - C) American consumers; American businesses
  - D) foreign businesses; American consumers

Answer: C

Ques Status: Previous Edition

- 8) From 1980 to early 1985 the dollar \_\_\_\_\_ in value, thereby benefiting American \_\_\_\_\_.

- A) appreciated; consumers
- B) appreciated; businesses
- C) depreciated; consumers
- D) depreciated; businesses

Answer: A

Ques Status: Previous Edition

- 9) From 1980 to 1985 the dollar appreciated relative to the British pound. Holding everything else constant, one would expect that, when compared to 1980,
- A) fewer Britons traveled to the United States in 1985.
  - B) Britons imported more wine from California in 1985.
  - C) Americans exported more wheat to England in 1985.
  - D) more Britons traveled to the United States in 1985.

Answer: A

Ques Status: Previous Edition

- 10) When in 1985 a British pound cost approximately \$1.30, a Shetland sweater that cost 100 British pounds would have cost \$130. With a weaker dollar, the same Shetland sweater would have cost

- A) less than \$130.
- B) more than \$130.
- C) \$130, since the exchange rate does not affect the prices that American consumers pay for foreign goods.
- D) \$130, since the demand for Shetland sweaters will decrease to prevent an increase in price due to the stronger dollar.

Answer: B

Ques Status: Previous Edition

11) Everything else held constant, a decrease in the value of the dollar relative to all foreign currencies means that the price of foreign goods purchased by Americans

- A) increases
- B) decreases.
- C) remains unchanged.
- D) either increases, decreases, or remains unchanged.

Answer: A

Ques Status: Previous Edition

12) American farmers who sell beef to Europe benefit most from

- A) a decrease in the dollar price of euros.
- B) an increase in the dollar price of euros.
- C) a constant dollar price for euros.
- D) a European ban on imports of American beef.

Answer: B

Ques Status: Previous Edition

13) If the price of a euro (the European currency) increases from \$1.00 to \$1.10, then, everything else held constant,

- A) a European vacation becomes less expensive.
- B) a European vacation becomes more expensive.
- C) the cost of a European vacation is not affected.
- D) foreign travel becomes impossible.

Answer: B

Ques Status: Previous Edition

14) Everything else held constant, Americans who love French wine benefit most from

- A) a decrease in the dollar price of euros.
- B) an increase in the dollar price of euros.
- C) a constant dollar price for euros.
- D) a ban on imports from Europe.

Answer: A

Ques Status: Previous Edition

15) From 1980-1985, the dollar strengthened in value against other currencies. Who was helped and who was hurt by this strong dollar?

Answer: American consumers benefitted because imports were cheaper and consumers could purchase more. American businesses and workers in those businesses were hurt as domestic and foreign sales of American products fell.

Ques Status: New



## 1.5 Appendix: Defining Aggregate Output, Income, the Price Level, and the Inflation Rate

1) The most comprehensive measure of aggregate output is

- A) gross domestic product.
- B) net national product.
- C) the stock value of the industrial 500.
- D) national income.

Answer: A

Ques Status: Previous Edition

2) The gross domestic product is the

- A) the value of all wealth in an economy.
- B) the value of all goods and services sold to other nations in a year.
- C) the market value of all final goods and services produced in an economy in a year.
- D) the market value of all intermediate goods and services produced in an economy in a year.

Answer: C

Ques Status: Previous Edition

3) Which of the following items are not counted in U.S. GDP?

- A) your purchase of a new Ford Mustang
- B) your purchase of new tires for your old car
- C) GM's purchase of tires for new cars
- D) a foreign consumer's purchase of a new Ford Mustang

Answer: C

Ques Status: New

4) If an economy has aggregate output of \$20 trillion, then aggregate income is

- A) \$10 trillion.
- B) \$20 trillion.
- C) \$30 trillion.
- D) \$40 trillion.

Answer: B

Ques Status: Previous Edition

5) When the total value of final goods and services is calculated using current prices, the resulting measure is referred to as

- A) real GDP.
- B) the GDP deflator.
- C) nominal GDP.
- D) the index of leading indicators.

Answer: C

Ques Status: Previous Edition

6) Nominal GDP is output measured in \_\_\_\_\_ prices while real GDP is output measured in \_\_\_\_\_ prices.

- A) current; current
- B) current; fixed
- C) fixed; fixed
- D) fixed; current

Answer: B

Ques Status: New

7) GDP measured with constant prices is referred to as

- A) real GDP.
- B) nominal GDP.
- C) the GDP deflator.
- D) industrial production.

Answer: A

Ques Status: Previous Edition

8) If your nominal income in 2002 was \$50,000, and prices doubled between 2002 and 2008, to have the same real income, your nominal income in 2008 must be

- A) \$50,000.
- B) \$75,000.
- C) \$90,000.
- D) \$100,000.

Answer: D

Ques Status: Revised

9) If your nominal income in 1998 is \$50,000, and prices increase by 50% between 1998 and 2008, then to have the same real income, your nominal income in 2008 must be

- A) \$50,000.
- B) \$75,000.
- C) \$100,000.
- D) \$150,000.

Answer: B

Ques Status: Revised

10) To convert a nominal GDP to a real GDP, you would use

- A) the PCE deflator.
- B) the CPI measure.
- C) the GDP deflator.
- D) the PPI measure.

Answer: C

Ques Status: New

11) If nominal GDP in 2001 is \$9 trillion, and 2001 real GDP in 1996 prices is \$6 trillion, the GDP deflator price index is

- A) 7.
- B) 100.
- C) 150.
- D) 200.

Answer: C

Ques Status: Previous Edition

12) When prices are measured in terms of fixed (base-year) prices they are called \_\_\_\_\_ prices.

- A) nominal
- B) real
- C) inflated
- D) aggregate

Answer: B

Ques Status: Previous Edition

13) The measure of the aggregate price level that is most frequently reported in the media is the \_\_\_\_\_.

- A) GDP deflator
- B) producer price index
- C) consumer price index
- D) household price index

Answer: C

Ques Status: Previous Edition

14) To calculate the growth rate of a variable, you will

- A) calculate the percentage change from one time period to the next.
- B) calculate the difference between the two variables.
- C) add the ending value to the beginning value.
- D) divide the increase by the number of time periods.

Answer: A

Ques Status: New

15) If real GDP grows from \$10 trillion in 2002 to \$10.5 trillion in 2003, the growth rate for real GDP is

- A) 5%.
- B) 10%.
- C) 50%.
- D) 0.5%.

Answer: A

Ques Status: Previous Edition

16) If real GDP in 2002 is \$10 trillion, and in 2003 real GDP is \$9.5 trillion, then real GDP growth from 2002 to 2003 is

- A) 0.5%.
- B) 5%.
- C) 0%.
- D) -5%.

Answer: D

Ques Status: Previous Edition

17) If the aggregate price level at time  $t$  is denoted by  $P_t$ , the inflation rate from time  $t - 1$  to  $t$  is defined as

- A)  $\pi_t = (P_t - P_{t-1}) / P_{t-1}$ .
- B)  $\pi_t = (P_{t+1} - P_{t-1}) / P_{t-1}$ .
- C)  $\pi_t = (P_{t+1} - P_t) / P_t$ .
- D)  $\pi_t = (P_t - P_{t-1}) / P_t$ .

Answer: A

Ques Status: Previous Edition

18) If the price level increases from 200 in year 1 to 220 in year 2, the rate of inflation from year 1 to year 2 is

- A) 20%.
- B) 10%.
- C) 11%.
- D) 120%.

Answer: B

Ques Status: Previous Edition

19) If the CPI is 120 in 1996 and 180 in 2002, then between 1996 and 2002, prices have increased by

- A) 180%.
- B) 80%.
- C) 60%.
- D) 50%.

Answer: D

Ques Status: Previous Edition

20) If the CPI in 2004 is 200, and in 2005 the CPI is 180, the rate of inflation from 2004 to 2005 is

- A) 20%.
- B) 10%.
- C) 0%.
- D) -10%.

Answer: D

Ques Status: Previous Edition